

DISCOVERY ELEMENTARY SCHOOL
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page</u>
Independent auditors' report	iii - iv
Management's Discussion and Analysis	v- x
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities	2
Fund financial statements	
Balance sheet - governmental funds	3
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
Notes to financial statements.....	6 - 18
Required supplementary information	19
Budgetary comparison schedule - general fund	20
Additional information	21
Long-term debt	
Full term certificates of participation, series 2001	22
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	23 - 24
Schedule of findings and responses.....	25



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

October 1, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Discovery Elementary School (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Discovery Elementary School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Discovery Elementary School as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

October 1, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007, on our consideration of Discovery Elementary School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Discovery Elementary School's basic financial statements. The additional information on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Discovery Elementary School’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

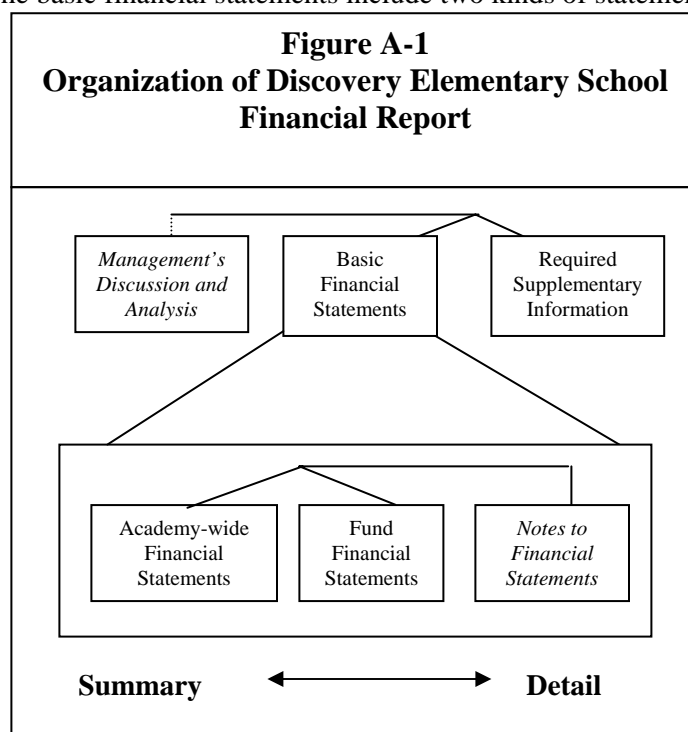
Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$2,985 compared to a budgeted figure of \$(58,368). This gives the Academy a general fund balance of \$246,764.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets (deficit) of \$(36,794) decreased by \$16,389 during the year. See Figures A-3 and A-4.

The total revenues decreased by less than 1% to \$947,450. State aid foundation allowance included in revenue from state sources accounts for approximately 82% of the Academy's revenue.

The total cost of instruction increased by .5% to \$494,764. Total support service decreased by 4% to \$277,760.

Academy governmental activities

Figure A-3
Discovery Elementary School's Net Assets

	2007	2006
Current assets	\$ 462,845	\$ 642,485
Restricted investments	165,750	
Capital assets, net	1,235,252	1,277,985
Total assets	1,863,847	1,920,470
Current liabilities	134,313	160,656
Long-term liabilities	1,766,328	1,780,219
Total liabilities	1,900,641	1,940,875
Net assets:		
Invested in capital assets, net of related debt	(524,748)	(537,594)
Restricted for debt service	234,043	271,578
Restricted for capital projects		16,081
Unrestricted	253,911	229,530
Total net assets	\$ (36,794)	\$ (20,405)

Figure A-4
Changes in Discovery Elementary School's Net Assets

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 94,786	\$ 97,238
Charges for services	8,373	9,251
	103,159	106,489
General revenues:		
Investment earnings	23,007	12,541
State aid - unrestricted	773,783	812,538
Allegan ISD special education allocation	7,288	8,764
Other	40,213	8,295
Total general revenues	844,291	842,138
Total revenues	947,450	948,627
Expenses:		
Instruction	494,764	492,658
Support services	277,760	267,191
Food service	9,023	8,862
Interest on long-term debt	139,557	141,581
Unallocated depreciation	42,735	47,606
Total expenses	963,839	957,898
Change in net assets	\$ (16,389)	\$ (9,271)

Financial analysis of the Academy's funds

The Academy's fund balance increased by \$14,173 to \$551,581. Principal and interest payments on long-term debt of \$160,231 were made from the debt service fund. Instruction expenses decreased by \$116,243 and support service expenses increased by \$128,918.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources or uses by \$58,368, the actual results for the year showed expenditures over revenues of \$2,985.

Actual revenues were \$33,853 less than budgeted, due primarily to less state and federal aid received.

Actual expenditures were \$75,702 under budget.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the Academy had invested \$1,235,252 in capital assets net of accumulated depreciation as summarized in Figure A-5. Total depreciation expense for the year was \$42,735. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
Discovery Elementary School's Capital Assets				
	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings	\$ 1,405,700	\$ (213,683)	\$ 1,192,017	\$ 1,220,130
Furniture and equipment	194,915	(151,680)	43,235	57,857
Total	<u>\$ 1,600,615</u>	<u>\$ (365,363)</u>	<u>\$ 1,235,252</u>	<u>\$ 1,277,987</u>

Long-term debt

The Academy repaid principal on long-term debt of \$20,000 during 2007. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The foundation allowance for next year has yet to be determined. Due to state budget issues, there is a good possibility of future cuts in state funding.
- The Academy has adopted a balanced budget for 2008.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy at 2611 56th Street, PO Box 1070, Fennville, MI 49408, (269) 561-2191.

DISCOVERY ELEMENTARY SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 87,571
Investments	175,408
Receivables:	
Accounts receivable	3,144
Due from other governmental units	138,299
Prepaid expenditures	1,264
Restricted cash and cash equivalents - capital projects	18,013
Restricted investments - capital projects	39,146
TOTAL CURRENT ASSETS	<u>462,845</u>
NONCURRENT ASSETS:	
Restricted investments - debt service	165,750
Capital assets	1,600,615
Less accumulated depreciation	(365,363)
Net capital assets	1,235,252
TOTAL NONCURRENT ASSETS	<u>1,401,002</u>
TOTAL ASSETS	<u><u>\$ 1,863,847</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 29,391
Accrued salaries and related items	47,623
Accrued interest	34,905
Current portion of long-term debt	20,000
Current portion of compensated absences	2,394
TOTAL CURRENT LIABILITIES	<u>134,313</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	1,740,000
Noncurrent portion of compensated absences	26,328
TOTAL NONCURRENT LIABILITIES	<u>1,766,328</u>
TOTAL LIABILITIES	<u>1,900,641</u>
NET ASSETS:	
Invested in capital assets net of related debt	(2,125,363)
Restricted for debt service	234,043
Unrestricted	1,854,526
TOTAL NET ASSETS (DEFICIT)	<u>(36,794)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,863,847</u></u>

See notes to financial statements.

**DISCOVERY ELEMENTARY SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 494,764	\$	\$ 66,792	\$ (427,972)
Support services	277,760		27,994	(249,766)
Food service	9,023	8,373		(650)
Interest on long-term debt	139,557			(139,557)
Unallocated depreciation	42,735			(42,735)
Total governmental activities	<u>\$ 963,839</u>	<u>\$ 8,373</u>	<u>\$ 94,786</u>	<u>(860,680)</u>
General revenues:				
Investment earnings				23,007
State sources				773,783
Allegan ISD special education allocation				7,288
Other				<u>40,213</u>
Total general revenues				<u>844,291</u>
CHANGE IN NET ASSETS (DEFICIT)				(16,389)
NET ASSETS (DEFICIT), beginning of year				<u>(20,405)</u>
NET ASSETS (DEFICIT), end of year				<u><u>\$ (36,794)</u></u>

**DISCOVERY ELEMENTARY SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Non major special revenue fund</u>	<u>Total governmental funds</u>
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 87,571	\$	\$	\$	\$ 87,571
Investments	103,410	71,998			175,408
Receivables:					
Accounts receivable	3,144				3,144
Due from other governmental units	138,299				138,299
Due from other funds		31,200			31,200
Prepaid expenditures	1,264				1,264
Restricted cash and cash equivalents - capital projects			18,013		18,013
Restricted investments - debt service		165,750			165,750
Restricted investments - capital projects			39,146		39,146
TOTAL ASSETS	<u><u>\$ 333,688</u></u>	<u><u>\$ 268,948</u></u>	<u><u>\$ 57,159</u></u>	<u><u>\$</u></u>	<u><u>\$ 659,795</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 8,101	\$	\$ 21,290	\$	\$ 29,391
Accrued salaries and related items	47,623				47,623
Due to other funds	31,200				31,200
TOTAL LIABILITIES	<u>86,924</u>		<u>21,290</u>		<u>108,214</u>

	<u>General fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Non major special revenue fund</u>	<u>Total governmental funds</u>
FUND BALANCES:					
Reserved for debt service	\$	\$ 268,948	\$	\$	\$ 268,948
Reserved for capital projects			35,869		35,869
Reserved for prepaid expenditures	1,264				1,264
Unreserved, undesignated	245,500				245,500
TOTAL FUND BALANCES	<u>246,764</u>	<u>268,948</u>	<u>35,869</u>		<u>551,581</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 333,688</u></u>	<u><u>\$ 268,948</u></u>	<u><u>\$ 57,159</u></u>	<u><u>\$</u></u>	<u><u>\$ 659,795</u></u>
Total Governmental Fund Balances					\$ 551,581
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				\$ 1,600,615	
Accumulated depreciation is				<u>(365,363)</u>	
					1,235,252
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Long-term debt					(1,760,000)
Compensated absences					(28,722)
Accrued interest is not included as a liability in government funds, it is recorded when paid					<u>(34,905)</u>
Net assets of governmental activities					<u><u>\$ (36,794)</u></u>

**DISCOVERY ELEMENTARY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	General fund	Debt service fund	Capital projects fund	Non major special revenue fund	Total governmental funds
REVENUES:					
Local sources:					
Investment earnings	\$ 10,488	\$ 10,745	\$ 1,774	\$	\$ 23,007
Food sales				8,373	8,373
Other			18,013		18,013
Total local sources	10,488	10,745	19,787	8,373	49,393
State sources	802,991				802,991
Federal sources	62,795				62,795
Incoming transfers and other transactions	32,271				32,271
Total revenues	908,545	10,745	19,787	8,373	947,450
EXPENDITURES:					
Current:					
Instruction:					
Basic programs	397,076				397,076
Added needs	89,187				89,187
Total instruction	486,263				486,263
Supporting services:					
Pupil	11,306				11,306
General administration	41,879				41,879
School administration	165,411				165,411
Business	7,054				7,054
Operation/maintenance	51,110				51,110
Central	1,000				1,000
Total supporting services	277,760				277,760
Total expenditures	764,023				764,023

	General fund	Debt service fund	Capital projects fund	Non major special revenue fund	Total governmental funds
EXPENDITURES (Concluded):					
Current (concluded):					
Food service	\$	\$	\$	\$ 9,023	\$ 9,023
Debt service:					
Principal		20,000			20,000
Interest		140,231			140,231
Total expenditures	764,023	160,231	\$	9,023	933,277
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	144,522	(149,486)	19,787	(650)	14,173
OTHER FINANCING SOURCES (USES):					
Operating transfers from other funds		146,857		650	147,507
Operating transfers to other funds	(147,507)				(147,507)
Total other financing sources (uses)	(147,507)	146,857		650	
NET CHANGE IN FUND BALANCES	(2,985)	(2,629)	19,787		14,173
FUND BALANCES:					
Beginning of year	249,749	271,577	16,082		537,408
End of year	\$ 246,764	\$ 268,948	\$ 35,869	\$	\$ 551,581

**DISCOVERY ELEMENTARY SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds	\$ 14,173
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(42,735)
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Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	35,579
Accrued interest payable, end of the year	(34,905)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Repayment of principal on long-term debt	20,000
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Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	20,221
Accrued compensated absences end of the year	(28,722)

Change in net assets of governmental activities	\$ (16,389)
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DISCOVERY ELEMENTARY SCHOOL NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Discovery Elementary School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Discovery Elementary School (the "Academy") is a charter school academy as part of the Michigan Public School System under Public Act No. 362 of 1993 and Act No. 416 of 1994. Grand Valley State University is the authorizing governing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects* fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Other Non Major Fund - The *special revenue* fund accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activities in the special revenue funds.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax mileage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately \$12,500 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

D. Other Accounting Policies

1. Cash and equivalents

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	50 years
Furniture and other equipment	10 years

The Academy’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Compensated absences

The Academy’s contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

DISCOVERY ELEMENTARY SCHOOL NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize certificates of participation premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

8. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

DISCOVERY ELEMENTARY SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Administrator submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The School Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS

As of June 30, 2007, the Academy had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
First American Treasury Obligation Fund - class D	\$ 276,894	0.0027	AAAm	100%
Portfolio weighted average maturity		0.0027		

1 day maturity equals 0.0027, one year equals 1.00

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Continued)

The Academy voluntarily invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2007, the fair value of the Academy's investments is the same as the value of the pool shares. These investments are restricted under the terms of the certificates of participation debt agreement primarily for debt service, capital projects and maintenance and repair of the related facilities.

Interest rate risk. The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Academy has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Academy places no limit on the amount the Academy may invest in any one issuer.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$19,984 of the Academy's bank balance of \$219,984 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no formal investment policy limiting custodial credit risk.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 105,584
Deposits - certificates of deposits	103,410
Investments	<u>276,894</u>
	<u><u>\$ 485,888</u></u>

The above amounts are reported in the financial statements as follows:

Cash and cash equivalents - Academy wide	\$ 105,584
Investments - Academy wide	<u>380,304</u>
	<u><u>\$ 485,888</u></u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	July 1, 2006	Additions	Deletions	June 30, 2007
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,405,700	\$	\$	\$ 1,405,700
Equipment and furniture	<u>194,915</u>			<u>194,915</u>
Total capital assets being depreciated	<u>1,600,615</u>			<u>1,600,615</u>
Accumulated depreciation				
Buildings and improvements	185,570	28,113		213,683
Equipment and furniture	<u>137,058</u>	<u>14,622</u>		<u>151,680</u>
Total accumulated depreciation	<u>322,628</u>	<u>42,735</u>		<u>365,363</u>
Net capital assets being depreciated	<u>1,277,987</u>	<u>(42,735)</u>		<u>1,235,252</u>
Net governmental capital assets	<u><u>\$ 1,277,987</u></u>	<u><u>\$ (42,735)</u></u>	<u><u>\$</u></u>	<u><u>\$ 1,235,252</u></u>

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2007 amounted to \$42,735. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM DEBT

In 2001, the Academy issued full term certificates of participation for the acquisition and improvements of a school building and land. Full term certificates of participation are direct obligations for which the Academy has pledged 20% of State Aid.

Long-term debt currently outstanding is as follows:

2001 series, full term certificates of participation requiring principal and interest payments, due annually ranging from \$158,537 to \$322,600 through October 1, 2032, with interest rates ranging between 6.75% and 8.125%.	\$ 1,760,000
Obligation under contract for compensated absences	<u>28,722</u>
Total general long-term debt	<u><u>\$ 1,788,722</u></u>

The annual requirements to amortize the certificates of participation outstanding as of June 30, 2007, including interest of \$2,428,354, are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 20,000	\$ 138,943	\$ 158,943
2009	25,000	137,421	162,421
2010	25,000	135,734	160,734
2011	25,000	134,046	159,046
2012	30,000	132,190	162,190
2013-2017	185,000	622,756	807,756
2018-2022	275,000	534,794	809,794
2023-2027	405,000	400,199	805,199
2028-2032	<u>770,000</u>	<u>192,271</u>	<u>962,271</u>
	<u><u>\$ 1,760,000</u></u>	<u><u>\$ 2,428,354</u></u>	<u><u>\$ 4,188,354</u></u>

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

An amount of \$268,948 is available in the debt service funds to service the full term certificates of participation.

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

	Compensated absences and severance benefits	General obligation bonds	Total
Balance July 1, 2006	\$ 20,221	\$ 1,780,000	\$ 1,800,221
Additions	11,902		11,902
Deletions	(3,401)	(20,000)	(23,401)
Balance June 30, 2007	28,722	1,760,000	1,788,722
Less current portion	(2,394)	(20,000)	(22,394)
Total due after one year	<u>\$ 26,328</u>	<u>\$ 1,740,000</u>	<u>\$ 1,766,328</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund	Payable fund
Debt Service <u>\$ 31,200</u>	General <u>\$ 31,200</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**DISCOVERY ELEMENTARY SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - TRANSFERS

Operating transfers between the governmental funds were as follows:

Operating transfers out		Operating transfers in	
General fund	\$ 147,507	Debt service fund	\$ 146,857
		Special revenue fund	650
	<u>\$ 147,507</u>		<u>\$ 147,507</u>

The general fund transfers state aid revenues to the debt service fund to meet principal and interest payments on the certificates of participation. The general fund transfers funds to the special revenue fund to cover operating shortfalls.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The Academy contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the Academy. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

DISCOVERY ELEMENTARY SCHOOL NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the Academy are established and may be amended by the MPSERS Board of Trustees. The Academy contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$73,462, \$68,648 and \$63,179, respectively, equal to the required contribution for each year.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Grand Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of \$22,792 for oversight fees.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

**DISCOVERY ELEMENTARY SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget - positive (negative)
REVENUES:				
State sources	\$ 851,000	\$ 804,970	\$ 802,991	\$ (1,979)
Federal sources	57,316	99,732	62,795	(36,937)
Investment income	4,000	7,500	10,488	2,988
Incoming transfers and other transactions	24,237	30,196	32,271	2,075
Total revenues	936,553	942,398	908,545	(33,853)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	415,752	421,361	397,076	24,285
Added needs	83,076	109,081	89,187	19,894
Total instruction	498,828	530,442	486,263	44,179
Supporting services:				
Pupil	18,750	17,204	11,306	5,898
General administration	38,850	41,800	41,879	(79)
School administration	170,760	175,825	165,411	10,414
Business	7,013	7,100	7,054	46
Operation/maintenance	61,967	66,354	51,110	15,244
Pupil transportation	280			
Central		1,000	1,000	
Total supporting services	297,620	309,283	277,760	31,523
Total expenditures	796,448	839,725	764,023	75,702
EXCESS OF REVENUES OVER EXPENDITURES	140,105	102,673	144,522	41,849
OTHER FINANCING USES:				
Operating transfers to other funds	(161,041)	(161,041)	(147,507)	13,534
NET CHANGE IN FUND BALANCE	<u>\$ (20,936)</u>	<u>\$ (58,368)</u>	<u>(2,985)</u>	<u>\$ 55,383</u>
FUND BALANCE:				
Beginning of year			249,749	
End of year			<u>\$ 246,764</u>	

ADDITIONAL INFORMATION

**DISCOVERY ELEMENTARY SCHOOL
FULL TERM CERTIFICATES OF PARTICIPATION, SERIES 2001
YEAR ENDED JUNE 30, 2007**

\$1,820,000 Certificates issued January 23, 2002

Principal due April 1	Interest due		Debt service requirement for fiscal year	
	October 1	April 1	June 30,	Amount
\$ 20,000	\$ 69,810	\$ 69,133	2008	\$ 158,943
25,000	69,132	68,289	2009	162,421
25,000	68,289	67,445	2010	160,734
25,000	67,445	66,601	2011	159,046
30,000	66,601	65,589	2012	162,190
30,000	65,589	64,426	2013	160,015
35,000	64,426	63,070	2014	162,496
35,000	63,070	61,714	2015	159,784
40,000	61,714	60,164	2016	161,878
45,000	60,164	58,420	2017	163,584
45,000	58,420	56,676	2018	160,096
50,000	56,676	54,739	2019	161,415
55,000	54,739	52,608	2020	162,347
60,000	52,608	50,282	2021	162,890
65,000	50,282	47,764	2022	163,046
70,000	47,764	44,918	2023	162,682
75,000	44,918	41,870	2024	161,788
80,000	41,870	38,617	2025	160,487
85,000	38,617	35,162	2026	158,779
95,000	35,162	31,301	2027	161,463
100,000	31,301	27,236	2028	158,537
110,000	27,236	22,764	2029	160,000
120,000	22,764	17,886	2030	160,650
130,000	17,886	12,602	2031	160,488
310,000	12,600		2032	322,600
<u>\$ 1,760,000</u>	<u>\$ 1,249,083</u>	<u>\$ 1,179,276</u>		<u>\$ 4,188,359</u>

The above certificates bear interest rates ranging from 6.75% to 8.125%. The certificate proceeds were used for the acquisition of property and improvements thereto.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

October 1, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Discovery Elementary School as of and for the year ended June 30, 2007, which collectively comprise Discovery Elementary School's basic financial statements and have issued our report thereon dated October 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Discovery Elementary School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Discovery Elementary School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Discovery Elementary School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

October 1, 2007

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described as 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 and 2007-2, are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Discovery Elementary School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Discovery Elementary School in a separate letter dated October 1, 2007.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, U.S. Department of Education and the Michigan Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



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October 1, 2007

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

In planning and performing our audit of the financial statements of Discovery Elementary School as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Discovery Elementary School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Accounting Expertise

Effective for the Academy's year ended June 30, 2007, Statement on Auditing Standards #112 titled, *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit. We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Journal Entries

During the course of our audit, several journal entries were made to the Academy's financial statements which had a significant effect on the Academy's financial reporting. The Academy should continue to work on the accuracy of reconciliations for all significant accounts, paying close attention to proper cut-off.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 1, 2007 on the financial statements of Discovery Elementary School. Our comments are summarized as follows:

Segregate Bank Reconciliation Duties

We noted during our audit the person who receives the unopened bank statement also prepares the bank reconciliation. We recommend someone other than the bookkeeper, who prepares the bank reconciliation, open the bank statement and scan cancelled checks and other transactions for any unusual or improper items. The procedure should include ensuring there is an actual cancelled check (or copy of cancelled check) for every item clearing the bank statement. These cancelled checks should be reviewed for check sequence, payee, endorsement, and authorized check signer. Any omissions of cancelled checks or unusual payee should be investigated immediately.

Bank Account Authorizing

During our audit procedures, we noted bank accounts were not authorized by the Board of Directors. We recommend any time bank accounts are opened or closed, the Board is made aware of the fact and noted in the board minutes.

Accounting Manual

We recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent corporate practices.
- Fix accounting and bookkeeping responsibilities.

- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to Academy policies.
- Aid in exchange of management ideas.
- Provide the Academy with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility. Management should periodically review each division's compliance with standard procedures.

Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Risk Disclosures”

Effective June 30, 2005, governmental entities were required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. It is our understanding the Academy does not have an investment policy addressing GASB #40.

The District should also review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

7

October 1, 2007

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Discovery Elementary School, management, and others within the organization, and is intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.

Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Currently, the Academy's staff prepares the interim and annual financial statements. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the Academy does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2007-2

Finding considered a significant deficiency

Currently, the Academy's staff prepares the interim and annual financial statements. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance in significantly adjusting account balances. The staff of the Academy does understand and agrees with all adjustment; however, during the course of our audit, several journal entries were made to the Academy's financial statements which had a significant effect on the Academy's financial reporting. We communicate this as required by professional standards and believe this meets the definition of a significant deficiency as defined by Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and agree with all adjustments proposed by the auditors. The Academy will continue to work on the accuracy of all significant accounts, but will use the external auditors for technical assistance when needed.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 1, 2007

To the Board of Directors
Discovery Elementary School
Fennville, Michigan

We have audited the financial statements of Discovery Elementary School for the year ended June 30, 2007, and have issued our report thereon dated October 1, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Discovery Elementary School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Discovery Elementary School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Discovery Elementary School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Discovery Elementary School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is \$28,722.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the School, either individually or in the aggregate, indicate matters that could have a significant effect on the School's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have discussed SAS #112 and the ability of the School's personnel to independently prepare the external audit report including all required financial statement disclosures.

Management has informed us they will utilize our technical expertise to assist in preparing the audited financial statements.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of directors and management of Discovery Elementary School, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.